



DEPARTMENT OF REVENUE

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July 23, 1998

Mr. David S. Guzy, Chief
Rules and Procedures Staff
Royalty Management Program
Minerals Management Service
P.O. Box 25165, MS 3101
Denver, CO 80225-0165



Re: Comments on additional changes to second supplementary proposed rulemaking regarding the valuation of crude oil produced from Federal leases (comments deadline: July 24, 1998)

Dean Mr. Guzy:

Thank you for providing an opportunity to comment on the proposed rulemaking regarding crude oil valuation. The Department of Revenue appreciates the opportunity to submit comments on this important and complicated issue. I understand the State of Wyoming has previously offered comments to your office regarding crude oil valuation, and I assume that those previous comments will also be considered by the Minerals Management Service. At this time, the Department of Revenue submits additional comments provided by the Wyoming Department of Audit. Those comments are attached.

Again, thank you for the opportunity to comment. If you have any questions or if I can be of further service to you, please contact me at (307) 777-5287.

Sincerely,

A handwritten signature in cursive script that reads "Lisa K. Burgess".

Lisa K. Burgess
Interim Director, Department of Revenue

Fax Numbers

From: Steve Dilsaver
To: REVENUE.REVENUE.DTEMTE
Date: 7/23/98 9:17am

Dean,

Thanks for the opportunity to respond to the crude oil regs. They are considering changing three areas that are in the current proposal: 1) Definition of "Affiliate" 2) Breach of Duty 3) Exchanges. I will discuss each issue.

Definition of Affiliate- They are proposing having a different definition for Affiliate instead of leaving it in the definition for "Arms Length". This in my opinion would clarify the definition.

Breach of Duty to Market- There was some concern that MMS would disallow arm's length gross proceeds based upon this section. So MMS is proposing adding language that indicates they will only use it when a payor reports on a price substantially below market. The problem here is that market is left open to what MMS feels is the market value. This may make it difficult to report and audit.

Exchanges- MMS is proposing going to a "one exchange" valuation for Exchanges. Under this method if a company has a buy/sell arrangement and then sells the crude to a third party after the buy/sell the value would be gross proceeds received from the third party. If for some reason they have multiple buy/sells the value due for royalties would be an index. From an audit standpoint that would make it easier to audit, instead of having to track the multiple buy/sells. The main concern I would have here is that possibly both US and State treasuries could lose money if the index price is lower than the gross proceeds at the final buy/sell. On the other hand the company may be required to report on an index when actually their gross proceeds are less than the index. These situations are not fair. MMS should have enough information on market value to not have to rely on indexes.

The last item they ask for comments on is gathering versus transportation issue relating to deepwater leases. This should not affect Wyoming.

I will also send to you copies of previous comments that have been send to MMS from the State on the proposed crude oil regs.

It may be a good time to comment on states being allowed the right to take their share of production in kind, so their is not all this confusion on how you arrive at a royalty value.

Dean let me know if you can open the attachments. If not I have attached the file so you can open them. It is the ar32e30.exe file.

Steve